

# STATE AND LOCAL REVENUE OVERVIEW

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# Sources of State and Local Revenue

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## STATE REVENUE

- ❑ Transportation Funds
  - ❑ Highway Use Tax
  - ❑ Motor Fuels Tax
  - ❑ Non-Tax Revenue
- ❑ General Fund
  - ❑ Personal Income Tax
  - ❑ Corporate Income Tax & Franchise Tax
  - ❑ State Sales & Use Tax
  - ❑ Other Taxes
  - ❑ Non-Tax Revenue

## LOCAL REVENUE

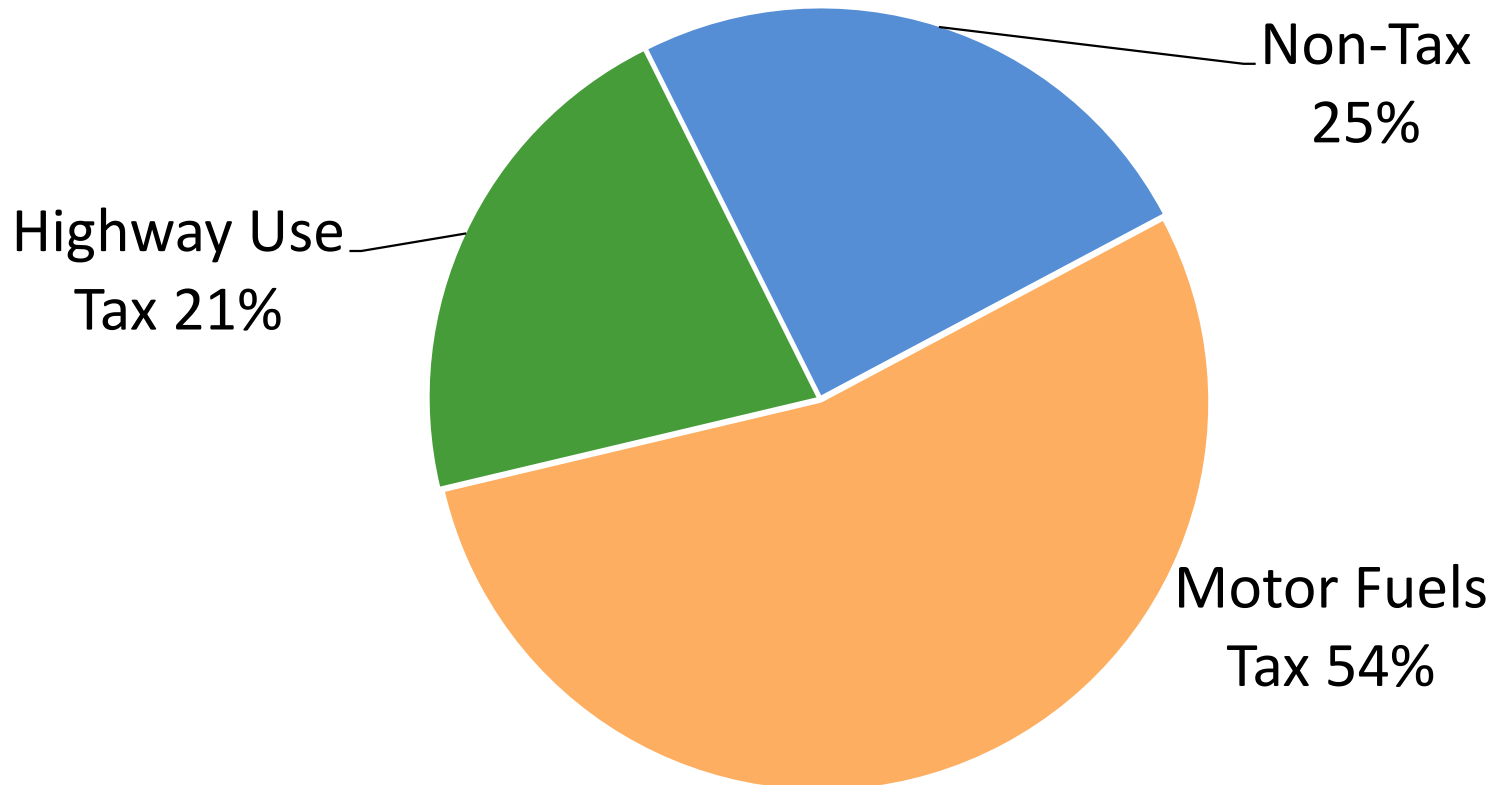
- ❑ Property Taxes
- ❑ Local Option Sales & Use Tax
- ❑ Other Taxes
- ❑ Non-Tax Revenue



# STATE REVENUES

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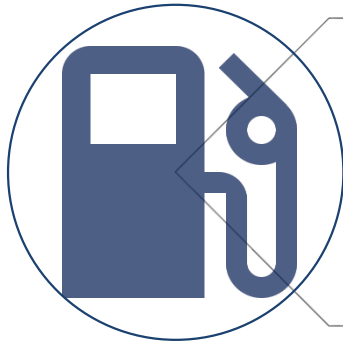
# State Transportation Revenue by Source



FY 2018-19 Total Revenue: \$3.8 Billion

# Transportation Funds: Taxes

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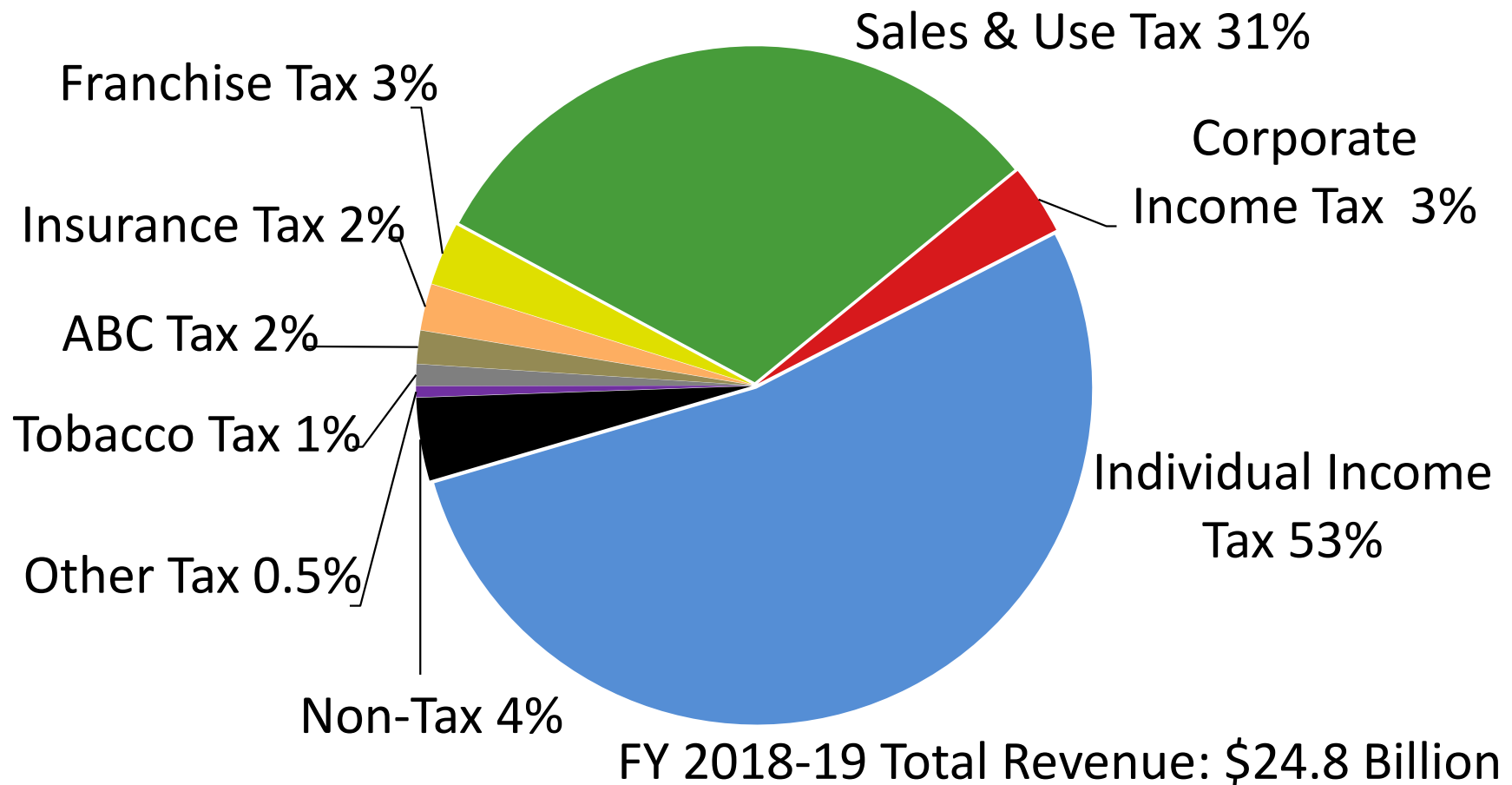


Motor Fuel Tax  
36.1¢/gallon

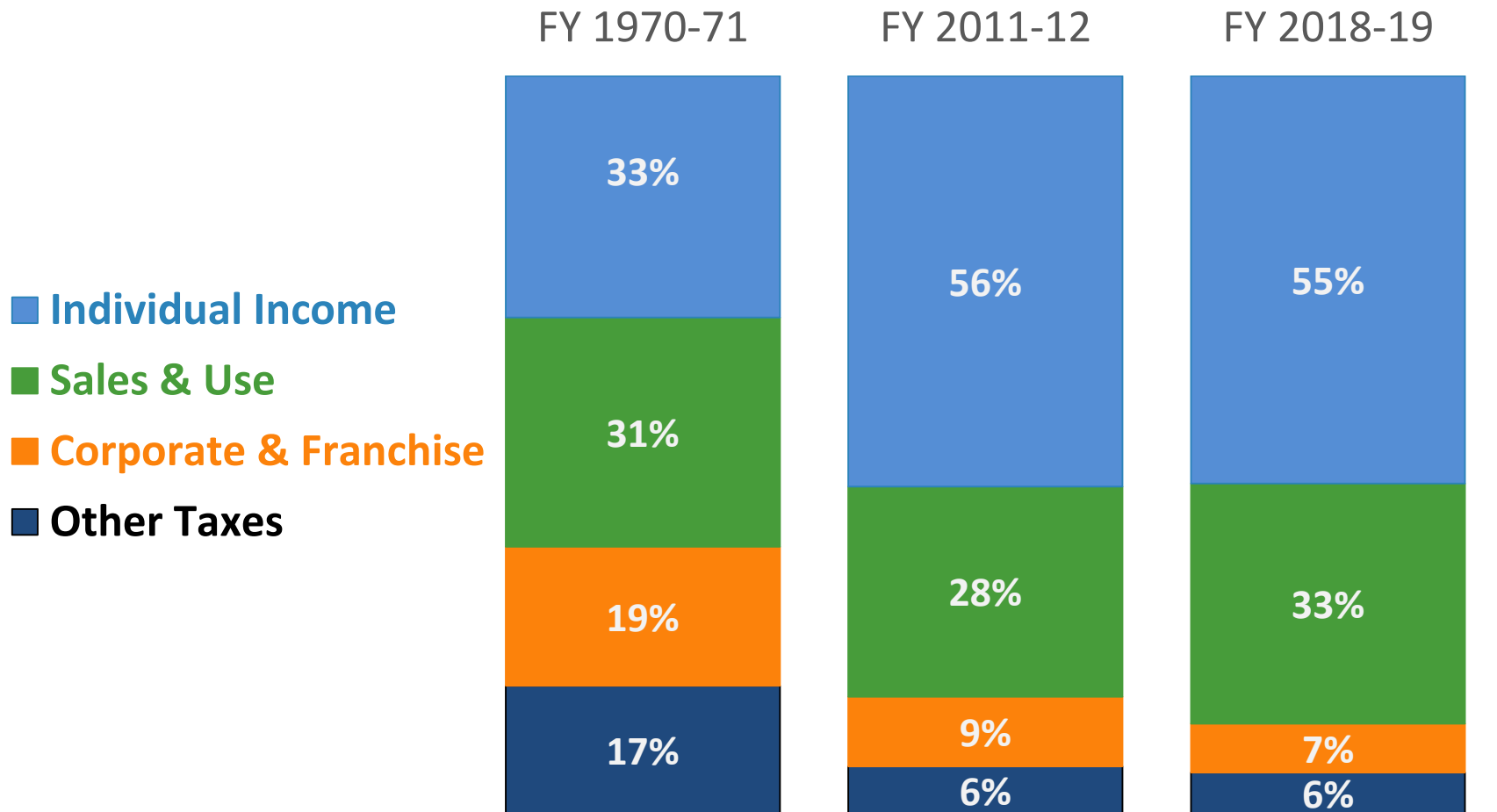


Highway Use Tax  
3% tax on retail value of  
vehicle assessed each  
time a title is transferred

# General Fund Revenue by Source



# North Carolina's Changing Tax Structure



# Fiscal Impact Of 2019 Session Tax Changes

Fiscal Year	FY 2019-20	FY 2020-21
Personal Income	(\$80.3)	(\$185.0)
Sales & Use	\$62.1	\$118.8
Corporate Income & Franchise Taxes	(\$1.0)	\$3.1
<b>Total Adjustments</b>	<b>(\$19.2)</b>	<b>(\$63.1)</b>

Note: Table includes changes to both General Fund and Highway Fund taxes



# Quick Tax Terminology Refresher

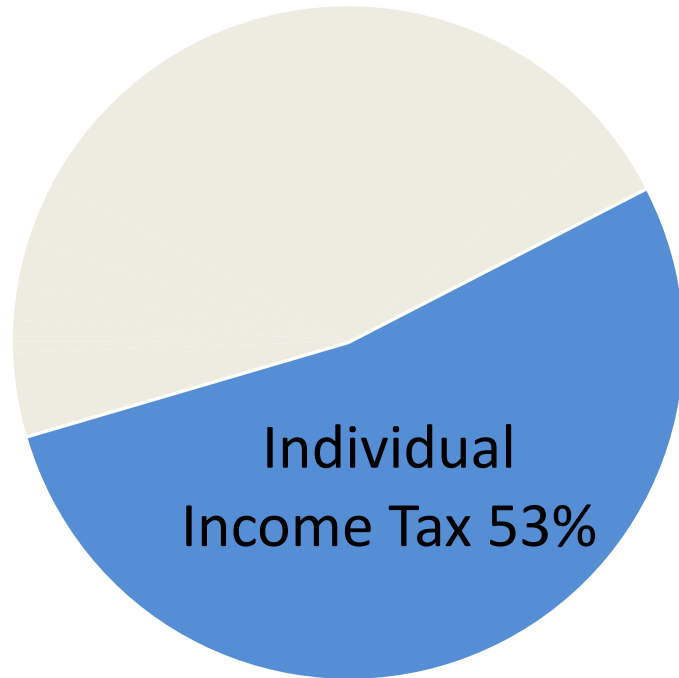
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$$\text{Tax Rate} \times \text{Tax Base} - \text{Credits} = \text{Tax Liability}$$

- **Tax Base:** All of the items or activities subject to tax
- **Tax Rate:** Percentage of the tax base owed in taxes
- **Tax Liability:** Amount of tax owed
- **Deductions** reduce the tax base
- **Credits** directly reduce tax liability

# General Fund: Individual Income Tax

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FY 2018-19: \$13.2 Billion

- 4.7 million TY 2018 returns
- More than 20% of returns have \$0 in tax liability
- Calculation is simpler than Federal taxes:
  - Flat rate
  - Four itemized deductions
  - Few credits and deductions

# Individual Income Tax: Rate

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**5.25 %**

- ❑ Flat rate
- ❑ Applies to all types of income, including capital gains
- ❑ Reduced from 5.499% for 2018 tax year
- ❑ Before 2014 tax year, there were three marginal tax rates: 6%, 7%, and 7.75%

# Individual Income Tax: Base

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## North Carolina Taxable Income

$$\begin{aligned} &= (\text{Federal Adjusted Gross Income} \\ &\quad - \text{Amounts exempt from State tax} \\ &\quad + \text{Amounts taxed by the State but not by the feds} \\ &\quad - \text{Itemized or Standard Deduction} \\ &\quad - \text{Child Deduction}) \\ &\quad \times \% \text{ of income derived from NC sources} \end{aligned}$$

# Standard vs. Itemized Deduction

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## STANDARD DEDUCTION

- Amount Determined by Filing Status
  - Joint Filers: \$21,500
  - Single Filers:\$10,750
  - Head of Household:\$16,125
- Increased by 7.5% in TY 2020

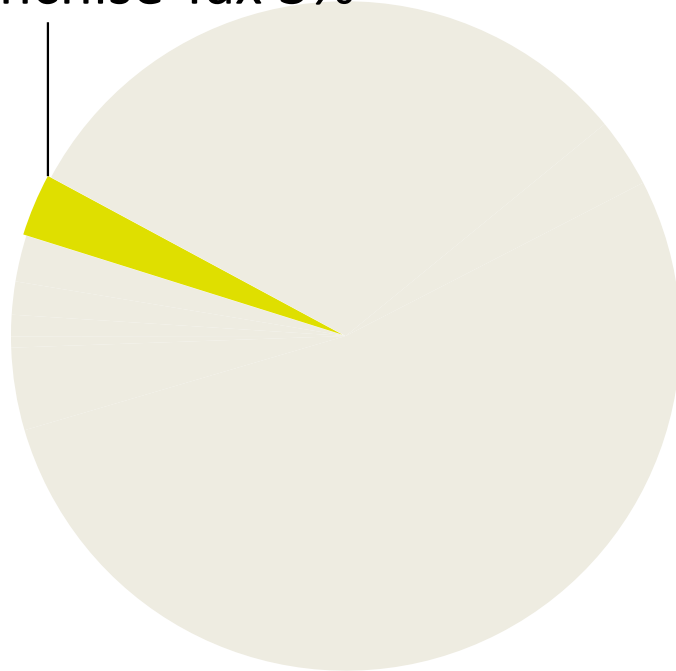
## ITEMIZED DEDUCTION

- Charitable Contributions
  - Federal rules apply
- Medical and Dental Expenses
  - Deduction allowed for expenses that exceed 10% of AGI for 2019/2020
  - Federal threshold is now 7.5%
- Capped at \$20,000
  - Home mortgage interest
  - Property taxes paid on real estate

# General Fund: Franchise Tax

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Franchise Tax 3%



FY 2018-19: \$0.7 Billion

- Tax imposed for:
  - The privilege of engaging in business
  - The benefit and protection received from the government and laws of NC in doing business
- Paid by:
  - C corporations (about 80,000)
  - S corporations (about 160,000)
  - Limited liability companies (LLC) pay \$200 annual report filing fee in lieu of Franchise Tax

# Franchise Tax: Rate

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**0.15%**  
(\$1.50 per \$1,000)

# Franchise Tax: Base

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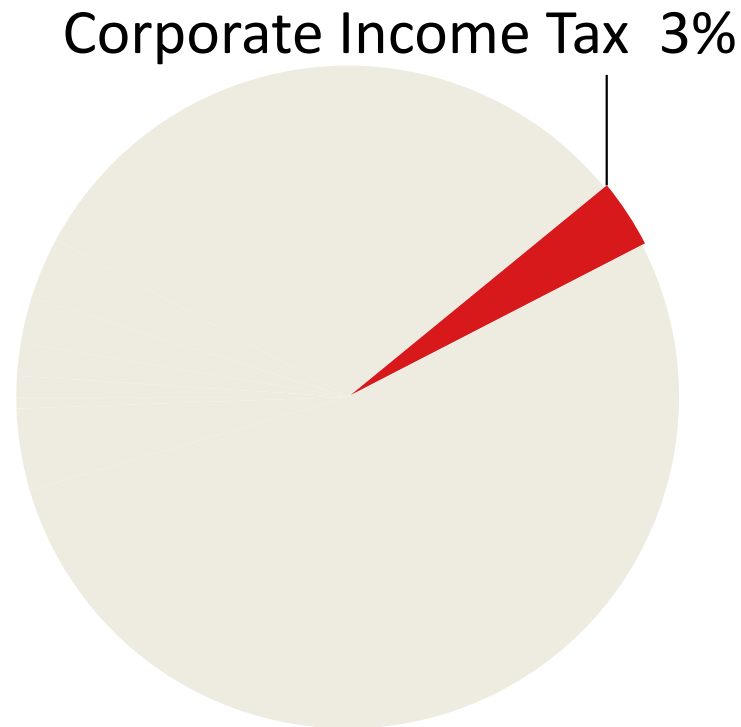
The rate is applied to the highest of three alternate bases:

1. Net Worth apportioned to NC using the apportionment percentage determined for income tax
2. Book value of NC real and tangible personal property, less outstanding debt created to acquire or improve the real property
3. 55% of the appraised value of NC real and tangible personal property



# General Fund: Corporate Income Tax

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FY 2018-19: \$0.8 Billion

- About 80,000 returns filed, but  $\frac{2}{3}$  have \$0 tax liability
- $\frac{2}{3}$  of collections come from about 300-400 large companies
- Corporations with NC taxable income of over \$1 million pay about 90% of the total corporate income tax revenue, but they make up less than 3% of the corporations filing returns

# Corporate Income Tax: Rate

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**2.5 %**

- ❑ Reduced from 3.0% for tax year 2018
- ❑ For tax year 2013, the rate was 6.9%

# Corporate Income Tax: Base

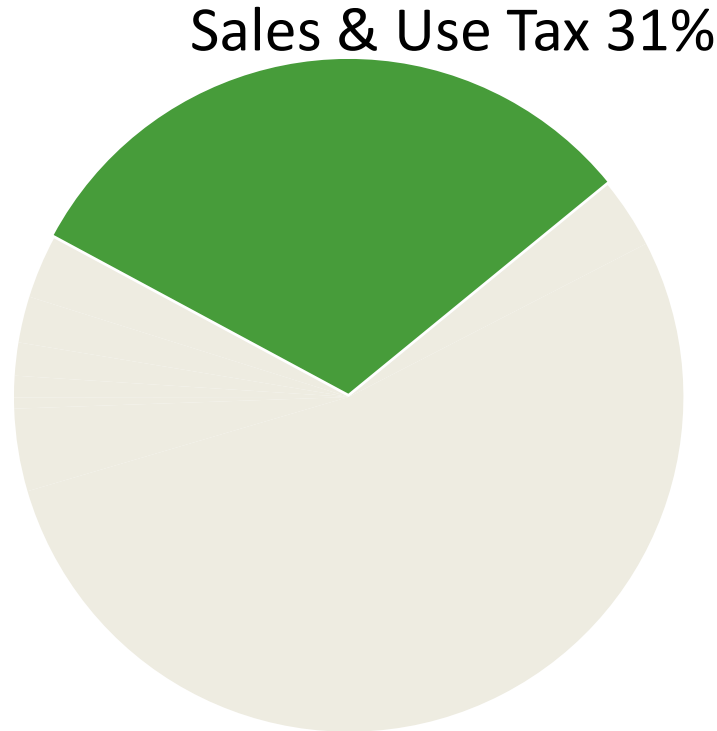
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## Income subject to North Carolina tax

$$\begin{aligned} &= (\text{Federal Taxable Income} \\ &\quad - \text{Amounts exempt from State tax} \\ &\quad + \text{Amounts taxed by the State but not by the feds}) \\ &\quad \times \% \text{ of income apportioned to NC} \end{aligned}$$

# General Fund: State Sales & Use Tax

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FY 2018-19: \$7.8 Billion

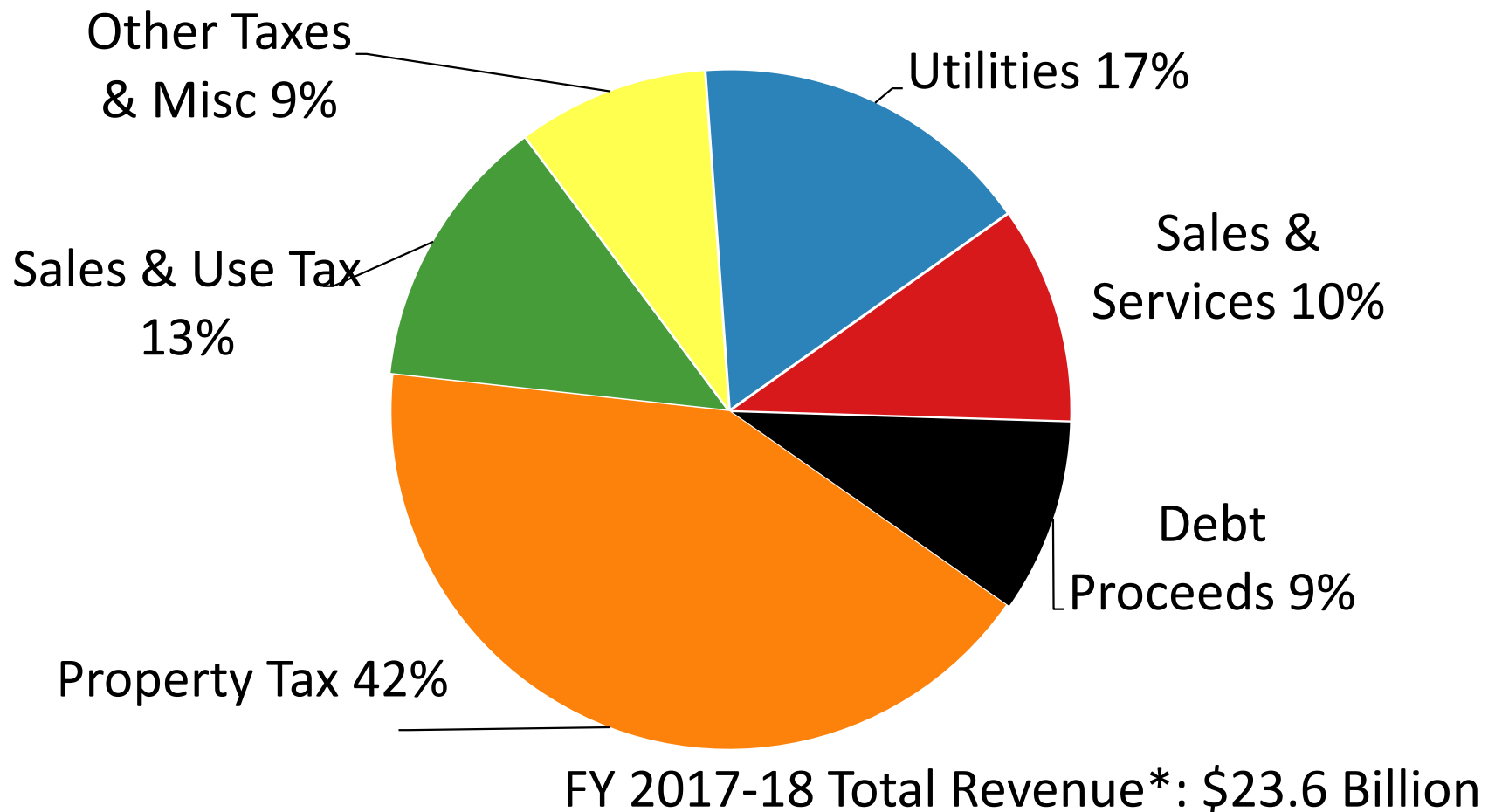
- State sales tax rate is 4.75%
- The sales tax is imposed on final sales of tangible personal property, digital property and certain services occurring in the State.
- Use tax is imposed on purchases made outside the State if the taxable item purchased is used or stored in NC.



# LOCAL REVENUES

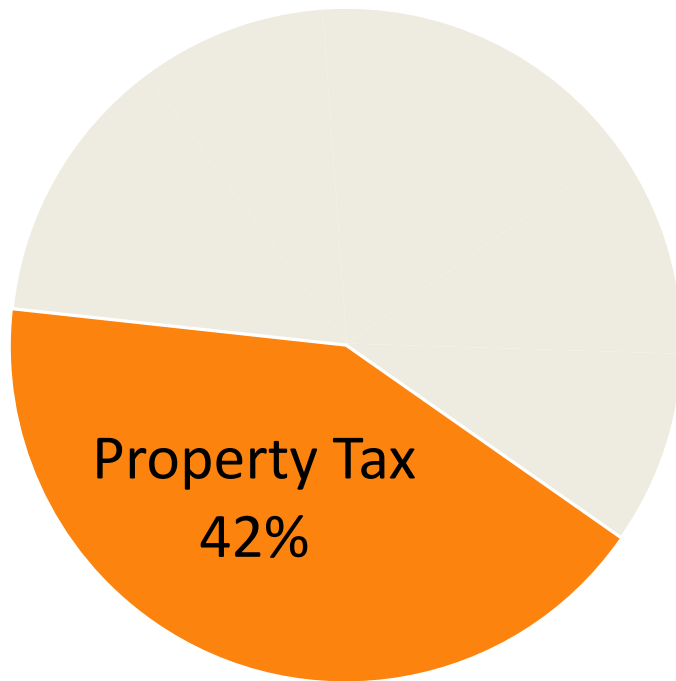
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# Local Revenue by Source



# Local Revenue: Property Tax

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FY 2017-18: \$9.9 Billion

- Property taxes are assessed on real property, personal property, and motor vehicles.
- Property tax is the most stable source of local revenue
- Assessed and collected by counties.

# Property Tax: Rate

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- Local governments set their own property tax rate
- Local property tax rates are calculated against each \$100 in value
  - Average: 0.68 (counties), 0.44 (municipalities)
  - Highest: 1.00 (Scotland)
  - Lowest: 0.31 (Carteret)
- Lowest rates in mountain and coastal counties



# Property Tax: Base

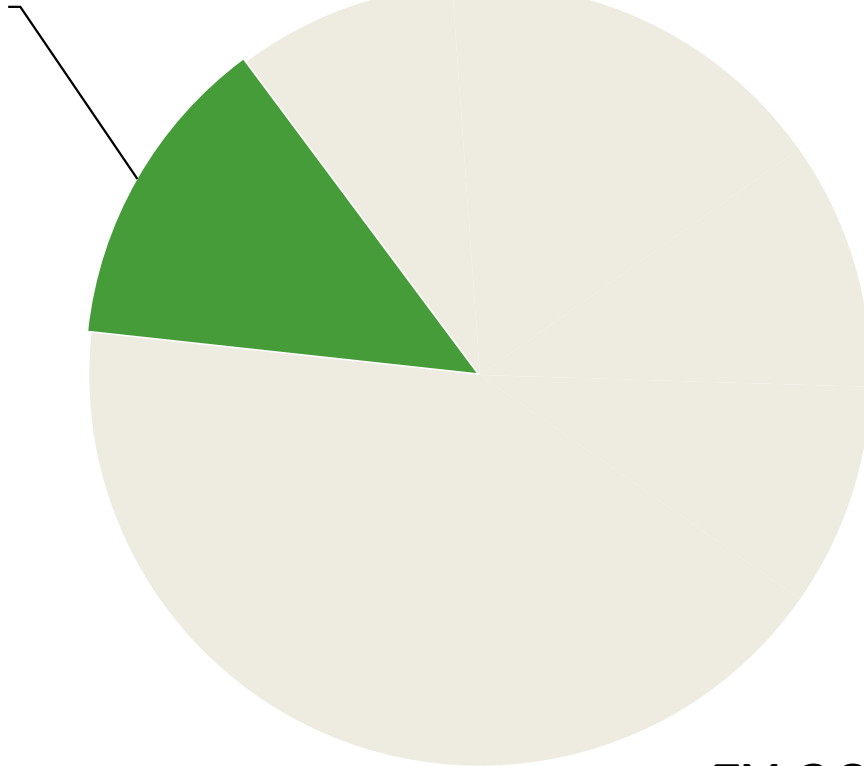
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- ❑ N.C. Constitution gives the General Assembly sole power to classify property for taxation
- ❑ Classes of property must be taxed uniformly
- ❑ Only the General Assembly has authority to exempt classes of property and exemptions must be on a State-wide basis
- ❑ Real property must be revalued at least every 8 years

# Local Revenue: Sales & Use Tax

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Sales & Use Tax 13%



FY 2017-18: \$3.1 Billion